

VZCZCXRO4919
RR RUEHCN RUEHRG RUESLE
DE RUEHBR #0534/01 1131741
ZNY CCCCC ZZH
R 221741Z APR 08
FM AMEMBASSY BRASILIA
TO RUEHC/SECSTATE WASHDC 1474
INFO RUEHAC/AMEMBASSY ASUNCION 6727
RUEHBJ/AMEMBASSY BEIJING 0377
RUEHBU/AMEMBASSY BUENOS AIRES 5448
RUEHMN/AMEMBASSY MONTEVIDEO 7327
RUEHSG/AMEMBASSY SANTIAGO 0275
RUEHCN/AMCONSUL CHENGDU
RUEHGZ/AMCONSUL GUANGZHOU 0033
RUEHHK/AMCONSUL HONG KONG 0075
RUEHRG/AMCONSUL RECIFE 7936
RUEHRI/AMCONSUL RIO DE JANEIRO 6046
RUEHSO/AMCONSUL SAO PAULO 1917
RUESLE/AMCONSUL SHANGHAI 0042
RUEHSH/AMCONSUL SHENYANG 0028
RUEAIIA/CIA WASHDC
RHEHNSC/NSC WASHDC

C O N F I D E N T I A L SECTION 01 OF 05 BRASILIA 000534

SIPDIS

SIPDIS

E.O. 12958: DECL: 04/14/2028

TAGS: [PREL](#) [ETRD](#) [EINV](#) [BR](#) [CH](#) [XR](#)

SUBJECT: BRAZIL: CHINA AND BRAZIL STRENGTHEN RELATIONS,
SLOWLY

REF: A. 06 BRASILIA 603

[1](#)B. BRASILIA 9

[1](#)C. BRASILIA 48

[1](#)D. 07 SAO PAULO 718

[1](#)E. SAO PAULO 130

[1](#)F. 05 BRASILIA 2317

[1](#)G. BEIJING 1315

Classified By: Deputy Chief of Mission Phillip Chicola, reasons 1.4 b/d

[1](#)1. (SBU) Summary. Sino-Brazilian relations are officially excellent, characterized by a booming economic relationship and a political relationship that has become increasingly closer, especially since 2004. Both governments are taking a long-term view and are trying to focus on crafting a patiently constructed relationship that they hope will increasingly yield political fruits in south-south affairs, international organizations, and bilateral cooperation. However, there is evidence that the Brazilian private sector may be beginning to take a different view, as a result of the unbalanced trade relationship. The Brazilian Foreign Ministry has placed political goals above economic considerations, causing dire consequences in some Brazilian manufacturing sectors. The Sino-Brazilian relationship purports to be cooperative, and they have much to offer each other. But at this point, there is evidence of both economic competition and some political frustration with a lack of Chinese responsiveness. Although the Brazilians are committed to strengthening this relationship over the long-term, Brazil is not getting all it wants from the relationship. It is not clear that the two sides will be willing to take the necessary steps to maximize its potential. End summary.

2004 Summit Raises Prospect for a More Dynamic Relationship

[1](#)2. (U) China and Brazil established formal diplomatic relations in 1974, and over the next twenty years signed six agreements covering trade (1978), maritime transportation (1979), science and technology (1982), culture and education (1985), economy and technology (1990), and the peaceful application of outer space (1995). In the mid-nineties, the two countries established a Strategic Partnership,

13. (SBU) Characterized by economic "complementarity" and a general coincidence of political interests, the Sino-Brazilian relationship advanced toward a high point in 2004, when the heads of state exchanged visits.

14. (U) Professor Lytton Guimaraes, coordinator of the Asian Studies Nucleus at the University of Brasilia, points to the significant fact that Lula's visit to China in May 2004 was also a trade mission, with over 400 businessmen accompanying the official delegation. President Hu visited Brazil in November 2004 during a Latin American tour that culminated in his participation at the APEC meeting in Chile. His trip generated a lot of hope in official and unofficial circles in Brazil, mainly for trade and investment opportunities, but also for political benefits.

15. (SBU) In the intervening years, numerous Brazilian trade missions have traveled to China seeking business opportunities. But without a bilateral summit since November 2004, the relationship has been mainly managed at the deputy minister level and below, except for Brazilian Vice President Alencar's March 2006 trip to Shanghai for the first meeting of the for the High Level Committee on Consultation and Cooperation (COSBAN) (ref A) and the August 2006 visit of top Chinese legislator Wu Bangguo.

Economic Complementarity Gets Few Compliments in Brazil

16. (SBU) According to Chinese and Brazilian diplomats, the Sino-Brazilian economic relationship is based on

BRASILIA 00000534 002 OF 005

"complementarity," not competition: Brazil exports to China low value added commodities such as iron ore, soy, and petroleum, with these three commodities representing about 70% of the export value, while China exports high value added goods such as electronics. Booming trade seems to bear witness to this complementarity: China recently passed Argentina to become Brazil's second largest export market, after the U.S., while Brazil is China's ninth largest export market.

17. (SBU) The GOB claims to be comfortable with a situation that currently favors China as exporter of high value added, finished manufactured goods. This may be because Brazil is able to export finished goods such as aircraft, electronics, shoes, and furniture to other markets. But Brazil and China compete in third country markets, and Brazilian industries in sectors such as shoes and toys have suffered greatly from Chinese competition both at home and abroad. The Brazilian business community has witnessed loss of domestic and third country market share without a commensurate increase in the Chinese market. While bemoaning their loss of market share to China, industry groups tell us they also worry about possible loss of jobs in Brazil as companies move to China to take advantage of cheaper production costs (ref E).

18. (SBU) As a result, there is tension lurking under the surface of these booming trade figures. A large number of Brazilian businesses, above all commodity exporters, are benefiting from the increasing trade. But manufacturers remain less satisfied (ref E) because finished products are harder to sell in China than commodities, and many have lost market share at home and in third countries to Chinese products. While the trade balance was in Brazil's favor, the unhappiness among manufacturers seemed to be only special-interest carping around the margins, but the trade balance has now shifted in China's favor. Brazilian exports to China in 2007 were USD 10.7 billion, up 27.93% over 2006, while Chinese exports to Brazil were USD 12.6 billion, up 57.92% over 2006, resulting in Brazil's first trade deficit with China. If not checked, a trade balance in China's favor will almost certainly generate additional bad feelings, which could become a political problem for both sides. Itamaraty

China desk officer Pablo Pereira told us the Chinese have already agreed to exercise some voluntary restraint at Brazil's request in an effort to control the trade imbalance.

¶9. (U) The Brazil China Business Council reveals in its first China-Brazil Trade Report (February 2008) that non-durable consumer goods comprise only 14% of Chinese exports to Brazil. Likewise, Chinese Ambassador Chen Duqing pointed out in a 2007 interview in Visao da China, published by the China Brazil Trade and Industry Council, that the bulk of the exports are not consumer goods, but industrial goods. Therefore, he suggested, they contribute to Brazilian manufacturing capacity and, because they are inexpensive, help control inflation to the benefit of consumers.

¶10. (C) By placing Brazil in the role of raw materials supplier, China has laid the groundwork for resentment in the Brazilian manufacturing sector, which includes not only toys, shoes and textiles, but high value added products such as cell phones and aircraft. In one important exception, China entered into an agreement with Brazil's Embraer to buy 100 airplanes made in China and Brazil, but fulfillment of the contract has been slow and did not begin until after China constructed a plant in Harbin very near the Embraer plant to do very similar work, possibly violating Brazilian intellectual property rights, according to Professor Guimaraes. As business sector dissatisfaction in Brazil grows (refs D and E), China may face an increasing challenge of managing Brazilian expectations to avoid souring the broader relationship.

...And Insufficient Chinese Investment in Brazil

BRASILIA 00000534 003 OF 005

- - - - -

¶11. (SBU) Some Brazilians also resent the unfulfilled promise of massive Chinese investment in Brazil, first aroused by President Hu's 2004 prediction of billions of dollars in Chinese investment in Latin America. (Chinese investments in the region are only about USD 2.4 billion, according to Rodrigo Maciel, Executive Secretary of the Brazil-China Business Council, and according to Shixue Jiang, Deputy Director of the Institute of Latin American Studies of the Chinese Academy of Social Sciences, citing Chinese Commerce Ministry statistics, total investment in Latin America stood at USD 11.5 billion in 2005, but was overwhelmingly (USD 10.92 billion) in the Cayman Islands and British Virgin Islands. Both citations are from "Enter the Dragon: China's Presence in Latin America," SAIS, 2007). For their part, Chinese investors often complain of the same types of barriers and disincentives to investment as American investors do, including corruption and excessive bureaucracy (Ref E).

¶12. (C) Federal Deputy William Boss Woo (PSDB, Brazilian Social Democracy Party, opposition; from Sao Paulo), the only Chinese-Brazilian federal legislator (his father is of mainland origin via Taiwan, and his mother is Japanese-born), who came to politics from a career in community police work and seems attuned to the views of ordinary Brazilians, complained to Poloff that China has repeatedly missed opportunities to take positive steps and to improve its image, suggesting for example that China could have used the recent, temporary EU ban on certain Brazilian meat products to approve the same products for China's market. He said China has missed opportunities to provide foreign aid, and Japan is in the Brazilian market bidding on large public works projects, while China is not. Deputy Woo said China fails to create brand consciousness for its products because they are manufactured for re-branding and retail sale by third parties. As a result, Brazilian consumers do not recognize any brands as Chinese. Professor Guimaraes said some Brazilians expected a significant increase in Chinese

investment in Brazil as relations improved, but it has not come, and frustration has set in.

Political Harmony Without a Clear Melody

¶13. (SBU) In 2006, China and Brazil formally initiated the COSBAN (Sino-Brazilian High Level Committee on Consultation and Cooperation, or Comissao Sino-brasileira de Alto Nivel de Concertacao e Cooperacao) in Shanghai with the participation of Brazilian Vice President Jose Alencar and Chinese Deputy Prime Minister Wu Yi. (ref A). The next COSBAN meeting should take place later this year in Brazil. In the first COSBAN meeting, China and Brazil agreed to support each other in international organizations, work toward a successful conclusion of the Doha Round, and cooperate in many political areas to strengthen south-south relations and the voice of the developing world globally. Brazil's and China's only high profile joint undertaking is a satellite program that predates the COSBAN. The several COSBAN subcommittees are to report on their work at the COSBAN meeting in 2008. The two countries recently upgraded their relationship to a Strategic Dialogue, intending to signal a closer political relationship, but again, concrete results have been difficult to discern.

¶14. (C) Brazil has made consistent overtures to the Chinese, offering China market economy status in November 2004 and organizing meetings of the BRICs (Brazil-Russia-India-China) (ref G). China has not reciprocated in meaningful ways so far. According to Professor Guimaraes, China's behavior with regard to Brazil has been ambiguous. China does not support Brazil's top foreign policy goal, a seat on the UN Security Council, as that would entail also supporting Japan, which China will not do, he added. (In fact, the subject was

BRASILIA 00000534 004 OF 005

something of a sore point at the recent BRIC meeting in Rio de Janeiro, per ref G). The BRICs will hold a first ministerial meeting in Yekaterinburg in May, but it is on the margins of a Russia-India-China meeting that Brazil appears to have greater weight for the other three. Guimaraes also believes China's positions in the WTO have not gone as far as Brazil would have liked. Deputy Woo takes a similar view, saying that "China does not try hard enough" in Brazil and supports Africa more.

¶15. (C) The two governments maintain, however, that all is well. China desk officer Pablo Pereira would not admit to any troubles in the relationship, and pointed to China's voluntary trade restraints and the mutual support in international bodies such as the WTO. Chinese Embassy Political Counselor Song Yang also said the political relationship is healthy and mutually beneficial, with its emphasis on friendship, south-south cooperation, and bilateral cooperation.

Comment: In It For The Long Haul

¶16. (C) The Sino-Brazilian relationship is both competitive and cooperative, and they have much to offer each other. Nonetheless, it is not clear whether over time the two sides will be able to manage the relationship to maximize its potential. Clearly China is a higher priority for Brazil than vice versa, but even without a convergence of political interests, the volume of trade alone between the two would keep Brazil on China's radar, even as it pursues resources in Africa, where, as Professor Guimaraes pointed out, it is less criticized for its political imperfections. Still, in its single-minded pursuit of commodities and export markets, China has not taken accompanying steps to heighten its cultural profile or increase its "soft power" in Brazil. For the moment, each side remains poorly understood by the other (ref C).

¶17. (C) The full potential of the relationship is hard to gauge, particularly since a leadership change in 2010 in Brazil could bring an end to Lula's south-south focus. Nonetheless, the relationship will remain important to Brazil and is increasingly institutionalized, so may well survive any future refocusing of Brazil's foreign policy priorities. At present the relationship seems to be delivering more for China than Brazil, which could cause problems if uncorrected.

Itamaraty has given precedence to the relationship's political goals, which drive Brazil's China policy, while economic consequences, both positive and negative, seem to be collateral results and not on a par with the GOB's south-south objectives. President Lula will probably go to China for the opening of the Olympic Games in August 2008, although that alone is unlikely to accelerate a relationship in which both sides seem comfortable with the tortoise's pace, not the hare's. End comment.

¶18. (U) Statistics on Brazil-China Trade
Brazilian exports to China (in billions of USD)
2002: 2.521 32.54% increase over previous year
2003: 4.533 79.83% "
2004: 5.441 20.03% "
2005: 6.835 25.61% "
2006: 8.402 22.93% "
2007: 10.749 27.93% "

Chinese exports to Brazil (in billions of USD)
2002: 1.554 16.98% increase over previous year
2003: 2.148 38.21% "
2004: 3.710 72.76% "
2005: 5.355 44.31% "
2006: 7.990 49.23% "
2007: 12.619 57.92% "

(Source: Brazilian Ministry of Development, Industry, and Trade)

BRASILIA 00000534 005 OF 005

SOBEL
SOBEL